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RUEHBY/AMEMBASSY CANBERRA 2608  
RUEHMO/AMEMBASSY MOSCOW 2258  
RUEHUL/AMEMBASSY SEOUL 9119  
RUEHFK/AMCONSUL FUKUOKA 7566  
RUEHNH/AMCONSUL NAHA 9953  
RUEHOK/AMCONSUL OSAKA KOBE 1245  
RUEHKSO/AMCONSUL SAPPORO 8161  
RHEHAAA/NSC WASHDC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/TREASURY DEPT WASHDC  
RUEHIN/AIT TAIPEI 6998  
RHHMUNA/HQ USPACOM HONOLULU HI  
RUEAIIA/CIA WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 001193

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STATE PASS USTR FOR CUTLER, BEEMAN  
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TAGS: [ECON](#) [EFIN](#) [ENRG](#) [PGOV](#) [JA](#)  
SUBJECT: CONSUMERS CALM AS FUKUDA REINSTATES THE GAS TAX

REF: A. TOKYO 1148

- [1](#)B. TOKYO 1076
- [1](#)C. TOKYO 0892
- [1](#)D. FUKUOKA 0027

Classified By: Amb. J. Thomas Schieffer. Reason: 1.4 (b,d)

#### Summary

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[1](#)1. (C) Gas prices are going back up in Japan after the government re-instated the gasoline and other road-related taxes April 30, despite the predicted opposition from the Democratic Party of Japan. Attention now turns to a vote on May 12 or 13 to pass legislation governing earmarks on the reinstated revenue. Because the loss in revenues caused by the lapse in the gasoline tax was short-lived -- only one month -- the economic impact is expected to be fairly minimal. End summary.

#### Lower House Override Reinstates Gas Tax

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[1](#)2. (C) Ruling coalition leaders pushed through a bill to re-instate the "provisional" gasoline and other road-related taxes on April 30, despite opposition Democratic Party of Japan (DPJ) attempts to portray the ruling Liberal Democratic Party's (LDP) loss in an April 27 Lower House by-election as a referendum on the issue. Initially, at least, the move appears to have paid off, as the opposition parties seem unable to galvanize the public around the issue. The DPJ boycotted the April 30 Lower House plenary re-vote and backed down from threats to cast an Upper House censure motion over the ruling coalition's "heavy-handed" tactics to "ignore" the popular will. Their public standing may also have been weakened by well publicized splits within the DPJ over opposition to the taxes. That may change over time, as gasoline prices slowly rise again. Still, in a positive sign for the Fukuda government, reports of rising gas prices on May 1 shared the front pages with stories of local

governments preparing to un-freeze their budgets in anticipation of the renewed revenues.

¶3. (C) Prime Minister Fukuda has been committed to passing a bill to re-instate the taxes despite his sagging cabinet support rate and popular opposition to the taxes. The Lower House originally passed the measure to re-instate the provisional road-related taxes on February 29, but the Upper House refused to act. The taxes lapsed when the existing legislation lapsed on March 31. Attempts at a compromise bill, meanwhile, fell flat in the face of continued opposition insistence on eliminating the 30-year-old "provisional" gasoline and road-related taxes entirely, despite PM Fukuda's willingness to end road construction earmarks beginning in FY 2009.

¶4. (C) In the weeks since, the opposition parties have held the bill in the Upper House, essentially refusing to deliberate on the merits or introduce their own counterproposal. Under the Constitution, a bill can be held for up to 60 days in the Upper House, after which it is considered rejected and can be passed into law by a two-thirds majority re-vote in the Lower House. This instance is the first time in 56 years that the Lower House has taken a second vote on a bill held by the Upper House. In January of this year, the Lower House used the two-thirds override to pass legislation authorizing resumption of refueling operations in support of Operation Enduring Freedom, but only after the bill had been voted down on the last day by the Upper House. Somewhat ironically, the LDP is now making noises about censuring Upper House President Satsuki, who hails from the DPJ, for allowing the gas tax bill to sit for 60 days.

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¶5. (C) Attention now turns to another potential Lower House re-vote on May 12 or 13 to pass legislation governing earmarks for several of the road-related taxes. The opposition is once again threatening a censure motion in return. Fukuda's unilateral proposal in March to meet the DPJ halfway by incorporating the taxes into general revenue beginning in FY2009 was initially opposed by entrenched road-construction interests in the LDP. At one point, the issue seemed poised to split the LDP, as the "road tribe" faced off against younger, more reform-minded LDP elements seeking the kind of genuine road-related tax reform that had eluded even Prime Minister Koizumi. Instead, Fukuda mollified pro-earmark lawmakers by inserting language preserving funding for "necessary" road projects, while staving off the reformers by sticking to his pledge to eliminate the earmarks completely in FY2009.

Markets and Consumers Calm as Prices Jump

¶6. (SBU) Consumer reaction to the re-imposition of the gasoline tax has been calm. According to the National Federation of Petroleum Commercial Associations -- one of the main industry groups for gasoline retailers -- some major filling stations' supplies had run out on the evenings of April 29 and 30 as consumers took their last opportunity to buy cheap fuel. However, the industry in general was prepared for the last minute rush. Tokyo gasoline prices as of opening of business on May 1 had risen about JPY 30 per liter, the Federation official indicated. A Nikkei poll of gasoline retailers indicated about two-thirds of service stations would raise prices JPY 30-34 per liter while less than 10 percent would post an increase of JPY 35 or more. The Federation official added high wholesale prices for gasoline, in addition to the renewed JPY 25 per liter tax, contributed to the jump in prices.

Many Retailers Seeking Government Assistance

17. (SBU) An official of the GOJ's Agency for Natural Resources and Energy (ANRE) told us May 1 a number of gasoline retailers have already taken advantage of government-provided financial assistance aimed at mollifying the business impact of the sudden fluctuation in prices. According to the ANRE official, the agency has received over 1400 inquiries into a program to subsidize interest payments on bank loans for service station owners since the program went into effect on April 21. In addition, 116 firms have inquired about a separate debt guarantee program in place since April 1. ANRE will maintain its loan guarantee program until the end of the current fiscal year (March 31, 2009) and plans to terminate the interest subsidies in September this year.

Little Expected Economic Impact of Renewed Tax  
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18. (SBU) The lapse and relatively quick re-imposition of the taxes limits the economic impact. Consumer price inflation for Tokyo in April was 0.6 percent, despite the fall in the retail price of gasoline, due to higher commodity and other prices. Nationwide CPI figures for April will not be available until the end of May, but market analysts expect CPI to be approximately 0.3 percentage points lower due to the elimination of the taxes, and then rise by a similar amount in May due to the reinstatement.

19. (SBU) Another impact will be the loss of one month's revenue from the taxes for the central and local governments, about 180 billion yen (\$1.75 billion). However, the government is likely to attempt to find cost savings in its

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road construction projects or delay costs into next fiscal year, to avoid any impact from these events on the fiscal deficit. At a time when slower growth in corporate profits will put a much larger drag on tax revenue collection, the impact of this temporary lapse in the provisional gasoline and road-related taxes on Japan's fiscal situation will be negligible.

SCHIEFFER